

COOPERATIVES, CREDIT AND THE POOR: PRIVATE INTEREST, PUBLIC CHOICE AND COLLECTIVE ACTION IN SRI LANKA

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1. Introduction

During the 1950s and 1960s, cooperatives were promoted in developing countries as institutions that could stimulate economic growth in rural areas and meet the needs of a broad spectrum of the populace, including the poor. Disillusionment with them had set in by the early 1970s however, and a series of empirical studies across Africa, Asia and Latin America by the United Nations Research Institute for Social Development (UNRISD) concluded that '.....rural cooperatives in developing areas today bring little benefit to the masses of the poorer inhabitants...in some places the majority of poorer inhabitants have in effect been excluded from membership' (UNRISD 1975:ix). These findings confirmed the views of many development planners and financiers, and the late 1970s and 1980s saw an emphasis on other forms of rural organisation. This swing intensified throughout the 1980s with the 'counter-revolution' (Toye 1987) in development theory and practice. Private sector models (both formal and informal) were highlighted as the most effective institutional forms. Non-profit organisations that exclusively targeted the poor (usually called non government organisations or NGOs) could serve as an interim form, providing a safety net for the disadvantaged as economies underwent structural adjustment and the private sector emerged.

This paper examines the theoretical case for arguing that cooperatives cannot meet the needs of the poor. It then explores the record of Sri Lanka's Thrift and Credit Cooperative Movement (SANASA, its Sinhalese acronym) which has exhibited a significant degree of success, in terms of a range of indicators, over the last fifteen years. Following this, the paper analyses the factors that underpin its achievements and some of the problems that is presently faces. The conclusion explores the practical implications for those involved in the design, management and provision of assistance to rural institutions, and the conceptual implications for those who seek to theorise about the forms of action that can improve the livelihoods of poorer rural people.

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2. The analytical framework

The idea that cooperative¹ institutional forms should be promoted in developing countries was based on two main premises. The first, which held a great 'common sense' appeal, was that such organisations had made a great contribution to agricultural change and the quality of rural life in Northern Europe and North America: thus the model should be transferred to other countries that wished to develop. The second was a belief that indigenous village institutions were based on 'cooperation' and so the Western model could be relatively easily transplanted as it was an innovation congruent with indigenous values.²

Experimentation occurred throughout the early part of this century, and in the era of Independence of the 1940s, 50s and 60s, a vast wave of cooperative promotion swept across the emerging nations. The development models of this period placed the state and its agencies at the centre of all development action. In consequence, responsibility for the establishment and provision of assistance to cooperatives was seen as a state responsibility almost everywhere. Large bureaucracies-ministries and departments of cooperative development - were spawned to implement the policy. Such a strategy was underpinned by the concept of the 'public interest state' (Wuyts et al 1992:66): a state that had a comprehensive capacity to identify and serve the interests of its populace and act in a benevolent and non-partisan fashion. This concept was fundamentally flawed (ibid) and, as in many other sectors, in most nations the state demonstrated only a very limited capacity to establish viable cooperatives, and a marked tendency to use them as mechanisms for the patronage of specific groups and individuals - usually the more powerful in local society (Batra 1988; Wiggins and Rogaly 1989). The UNRISD studies provided clear empirical evidence of the negative effects of state-directed cooperatives.

More recently, commentators have modified the analytical framework for understanding cooperative 'failure', under the influence of public choice theory. Uma Lele (1981) for

1. Youngjohns (1977:8) identifies five principles that underpin a cooperative organisation: open membership, democratic control, limited interest on share capital, patronage bonus as the mechanism for 'profit' distribution and the promotion of education.

2. The paradoxical nature of such a proposition is discussed in Worsley (1971).

example proposed that the functioning (or rather, malfunctioning) of cooperatives could be best understood in terms of what might be called 'private interests'. The key tenets of this are that individual behaviour is based exclusively upon maximising personal economic benefits, while all organisations seek to maximise their profits (or surplus) through expansion and improved margins. This framework indicated '...that the limitations of cooperatives in reaching the poor arise from a rather consistent set of factors' (ibid:69) that can be encapsulated in terms of two fundamental dilemmas.

- (i) The growth-equity dilemma - 'in situations of asset and income disparity the cost of providing services to the poor is greater than that of reaching the relatively rich' (ibid:56). Thus the economic incentives acting upon cooperatives, in the high inequality contexts of developing countries, lead them to focus their services on the more affluent and to avoid the poor. Only asset redistribution or effectively targeted subsidies for the poor, could overcome this dilemma³. Both are judged to be politically unlikely to occur in most countries.
- (ii) The decentralisation-equity dilemma - 'in situations of asset disparities, emphasis on rural self-help and grassroot participation... frequently leads to the control of local organisations by the rural political elite resulting in a disproportionate allocation of the scarce development resources in their favour...[and] it frequently results in the perpetuation, if not worsening, of socio-political differentiation' (ibid). Thus, in differentiated societies, the economic benefits of cooperatives will be captured by the local elite. Only centralised and paternalistically operated organisations serving the poor exclusively, would be able to get around this dilemma.

The conclusion is thus reached that cooperatives cannot benefit the poor. While the 'dilemmas' identified by Lele illustrate some of the problems that cooperative organisations face a broader conceptual framework is required to understand the empirical variety of cooperative experience in different contexts, and the problems and potential of cooperative institutions. The recognition of 'public action' (Dreze and Sen 1989) by

3. Surprisingly the third possibility, of charging small users of a service higher unit costs than larger users, was not recognised as a device for tackling this dilemma. The use of the 'market mechanism' in this way is not incompatible with cooperative principles.

elements of local populaces founded upon motivations that are not purely market-based must be given consideration. Local forms of public action - mutual support, a concern about the well-being of others, the collective management of certain types of common property resources, the voluntary contribution of time and labour to a group and even altruism - may be beyond the ken of the private interest models of public choice theory, but in many social contexts they have considerable significance (Wade 1988). Uphoff's (1992) theorisation of individual behaviour '...as variable, as something probabilistic, rather than as something fixed, predetermined by some hierarchically ranked set of interests' is of great importance for the understanding of the functioning of cooperatives. It posits that the choices people make with regard to selfish (self-regarding) or generous (other-regarding) actions and to individual or cooperative initiatives are shaped not only by private interests but also by expectations. Expectations, in their turn, are not precise and unambiguous but are shaped by ideas, ideals and social relationships. Leaders, at a range of levels, play a key role in the processes that influence expectations and make it more or less probable that people will behave selfishly or generously, individually or collectively. The example of SANASA in Sri Lanka provides a vivid illustration of the need to extend the conceptual frameworks that have been applied to cooperatives in recent years, if we are to understand the complexity and potential of their operations.

3. Thrift and credit cooperatives in Sri Lanka

3.1. *A brief history*

Thrift and credit cooperatives were introduced to Sri Lanka in 1906 when, ordinances, copied from the equivalent Indian instruments, were enacted. These ordinances sought to promote primary thrift and credit cooperatives (PTCCS) in villages to solve the problem of 'rural credit' and to assist 'progressive' farmers in raising agricultural production. These societies collected savings from members and on-lent them to other members for commercial purposes and also for consumption. The PTCCSs were effectively promoted and by 1940 some 1302 were registered. This rose to 4026 societies by 1964.

However, in the mid-1960s the thrift and credit movement began to encounter difficulties as state-supported multi-purpose cooperative societies (MPCS) grew in importance. The MPCSs were introduced in 1957 and were based on the numerous consumer cooperative societies that had been established during World War II to ensure the provision of essential

commodities at reasonable prices at a time when supplies were disrupted. The MPCSS serve as retailers, wholesalers and marketing agencies and have 'memberships' that run into tens of thousands. They are also very closely integrated with two key government programmes: the provision of subsidised 'rice rations' (and later the redemption of 'food stamps') to the public, and the supply of subsidised credit to small farmers under the New Agricultural Credit Scheme (NACS) and later the Comprehensive Rural Credit Scheme (CRCS). Not surprisingly, given the economic and political importance of these two policies, the bureaucracy and political parties are often directly involved in MPCSS operations. The interest and energy of PTCCS members and leaders drifted over to MPCSS which could offer large subsidies and a greater range of services. By 1978 there were only 1300 registered PTCCSSs and these faced dwindling numbers of members and the likelihood of closure when the existing leadership retired and was not replaced. Thrift and credit cooperatives had an image of respectability but were 'old-fashioned' and as such attracted little interest from politicians or the local elite.

It was at this time that P A Kiriwandeniya returned to his home village of Walgama in the Kegalle District having resigned his position in Colombo with Sarvodaya Shramadana, the country's largest non-government organisation. He worked with members of his village's flagging PTCCS to analyse its problems and encourage its 're-awakening'. Over the course of a year the society determined to become more business-like with the appointment of part-time and full-time workers, the opening of an office, the offering of a wider range of financial services and a membership drive. As membership increased, savings were expanded, loan sizes were increased and the PTCCS became a force for development within the village.

The success of the Walgama experiment led to the mounting of a seminar at the village for the members of other PTCCSSs in Kegalle. This was well attended and set off a process of re-activating societies across the District. A District Union (DU) of PTCCSSs was established to promote membership, encourage new societies, provide education, train members and leaders and manage inter-lending between societies. This Union was chaired by the charismatic Kiriwandeniya, and soon provided a model for other districts. By 1981 five District Unions had been created and these had agreed to form a national level Federation of Thrift and Credit Societies (FTCCS). The Federation set about vigorously promoting the movement and introducing policies that met member needs while providing the resource flows necessary to support DUs and the FTCCS. Membership rose from

208,000 in 1981 to 340,100 in 1985.

However, in 1985 the FTCCS took a decision that led to considerable problems in the late 1980s. Partly due to government pressure, and partly due to the possibilities of expanding membership and deriving income that would fund the institutionalisation of DUs, the Federation agreed to act as an intermediary for the USAID-financed Million Houses Programme (MHP). This provided subsidised credit for housing construction. Unfortunately, it also encouraged an influx of members interested only in 'cheap credit' and exposed the movement to the vagaries of party politics. Credit discipline on the MHP loans was never at the high levels of other SANASA activities and in August 1988, when the government announced the writing-off of all outstanding housing loans for poor families (ie the 60 per cent of the nation that receives food stamps) it dropped to very low levels. SANASA has struggled to overcome the problems created by this moratorium by getting government to accept responsibility for a proportion of MHP loans (some of which are still on the books of PTCCSs and DUs) and by active local level supervision to get defaulters to repay. Fortunately the cooperative model has proved robust, and SANASA's other credit activities have not been contaminated by the virus of default.

Despite the MHP experience, the thrift and credit movement retains a strong ideology of internal financing and collective responsibility which underlies the emphasis on repayment discipline. This was illustrated to the authors by a SANASA member, who described the country's financial system as fuelled by two types of funds: 'hot' and 'cold' money. 'Cold' money is that which comes from the state, and is often thought of as a real or potential subsidy (repayment of loans from cold money is potentially avoidable). Loans from 'hot' money are derived from cooperative members' savings, and must be therefore be handled carefully (individual default will affect friends and neighbours). One of the FTCCS's key successes has been to convince DUs (and most of their member PTCCSs) that once finance enters the network it becomes 'hot' money, since default on some loans will endanger share capital and members' deposits at different levels of the network (see the explanation of structures and procedures below).

By 1991 the movement had some 702,000 members in 7245 societies with shares and savings of Rs418 million (in 1991 Rs41.37 = US\$1.00) and Rs637 million disbursed in loans. For five of the last six years the volume of funds loaned by PTCCSs has exceeded total loans made under the government's New Comprehensive Rural Credit Scheme.

3.2. *Structures and procedures*

SANASA has a three tier structure of primary societies, district unions and federation. Each level is legally autonomous but all are heavily interdependent. The Federation and DUs provide the tier below with deposit and inter-lending facilities, management support and assistance in 'cooperative education' for members and prospective members. They also have the ability to influence, but not control, PTCCS policies on interest rates, terms and conditions, types of programme and non-financial activities. Primary societies provide the higher levels with membership dues and income from interest rate spreads. They also elect members to sit on the Boards of UD's and the Federation.

The primary societies themselves are very heterogeneous. They range in size from twenty to several hundred members, finance very different types of activity and can determine their own policies. This diversity is a consequence of the autonomy of individual societies in the movement. However, there are a number of procedural similarities. Members must purchase a share in the society (Rs240 in 1992), must develop a savings record before they are eligible for loans and require two guarantors before a loan is granted. Interest rates are set by the society and, for both deposits and loans⁴, these have generally risen in real terms throughout the 1980s and 1990s; Typically, societies pay 10 to 14 per cent per annum on savings and charge 18 to 24 per cent on loans. However, for the increasingly popular 'instant loans' of Rs500 to Rs1000 that most PTCCSs now operate, the rate is 4 to 5 per cent per month (ie around 80 per cent per annum). Societies hold monthly meetings, that are usually well attended, as well as operating a variety of committees. Larger societies often open small 'banks' with paid staff where savings can be deposited or withdrawn on most working days.

4. Amongst the societies which we visited interest rates for savings and credit differed widely. Some societies charged very high rates on loans, and low ones on deposits, to generate profit for the future expansion of their services; other societies preferred narrower spreads to provide more immediate benefits to their members. Some societies had diverse interest rates, according to the purpose for which loans were intended, while some charged a uniform rate on all credit. DUs such as Kurunegala have some influence over PTCCS policy by down-lending funds for different purposes at different rates, implying that societies should use a schedule of charges depending on the purpose for which members take loans. However, PTCCSs can circumvent DU guidelines, by applying for cheaper types of credit, and substituting their own funds for the loans for which the DU charges higher rates. In seven out of the nine societies which we studied in detail over 85% of credit disbursed was financed from members share capital and savings deposits. In other words, relative independence from outside funds ensured that interest rate policy remained the prerogative of the society.

4. Thrift and credit cooperatives and the poor

Four questions can be posed to examine the influences of SANASA on low-income households.

- * To what extent are poor people included in SANASA membership?
- * Are financial services differentially available to poorer and richer members?
- * What are the impacts of credit provision on the livelihoods of poorer members?
- * Do PTCCSs bring about changes in socio-political relationships within communities or merely reinforce existing ties?

These questions are explored below through data collected mostly in late 1992, through a detailed questionnaire interview of 151 members of fifteen societies in two districts along with the results of structured interviews, observations and secondary materials. The two districts were chosen in an attempt to capture the diversity of the SANASA movement. Kurunegala is the densely populated, relatively developed, lush western 'wet zone' of the country. Moneragala is in the comparatively undeveloped, drought prone 'dry zone' in the south east. Even within these two regions, the societies we selected for detailed analysis were highly heterogeneous.

4.1. Society membership

The 'original' membership of PTCCSs up to the 1970s was largely focussed on middle-income rural people and those with regular incomes in the country's economically advanced areas, such as the 'coconut triangle' in the 'wet zone' (Kiriwandeniya 1986: 45; Montgomery and Hulme 1993). However, since its 'reawakening' in the late 1970s SANASA has adopted both an ideology and a practice of actively including poorer districts and poorer people within its membership. The geographical thrust has been pursued by extending coverage into Dry Zone areas such as Puttalam and Hambantota. The social thrust has been attempted by procedural changes making it easier for poorer people to join societies (virtually all societies now accept the initial share as twelve payments of Rs20 over a year), by special programmes for members who are estate workers, land encroachers or poorer women, and by educational activities within societies encouraging them to undertake special initiatives for less well off villagers. The Federation has given a financial thrust to these efforts by earmarking considerable funds for various disadvantaged groups through its Low Income Earner Credit Programme.

These modifications have been successful and have led to notable 'downwards' expansion of SANASA membership in the 1980s. This can be particularly observed in recently established societies, such as those in Moneragala where very small farming families are the majority of members; but also, some older societies in Kurunegala have made successful efforts to induct the poorer people in their communities into the membership.

At the aggregate level, our survey of fifteen cooperatives suggested that SANASA's membership generally reflects the social composition of wider society, and that the poor predominate to a slightly greater extent than might be expected. This is evident using a crude poverty line analysis building on figures used for a Central Bank (1989) small farmers and landless project. The project study defined a poverty line income as being Rs1,400 per month (per household) in 1988. Adjusting this figure for inflation, using the consumer price index (Central Bank 1992), comparable poverty line definitions for our survey respondents are Rs2,100 towards the end of 1991, and Rs2,239 for the time of the interview. Some 52% per cent of SANASA members interviewed had monthly incomes below Rs2,100 in late 1991 (before they had taken the loans which were the subject of the interview). this proportion of the sample below the poverty line is significantly higher than the FAO's most recent (1988) estimate of 46 per cent of the rural populace (IFAD 1992:37). Only 8 per cent of the sample had monthly incomes in excess of Rs10,000, placing them in what might be termed a position of being, in relative terms, 'wealthy'.

Other social indicators from interviewees also suggest a correspondence between membership and communities in general. For example, 13 per cent of Moneragala respondents were illiterate, which correlates with government statistics for the area. Additionally, the number of single and widowed women members in the sample, some 15 per cent, is slightly higher than the 13 per cent estimated by official sources (Central Bank 1989:25). The inclusion of women, who often have little collateral in their name and fewer income-earning opportunities, is one of SANASA's most significant achievements. From a relatively low base in the 1970s, by 1990 women constituted over 50 per cent of SANASA membership. Indeed, in several districts there are now societies that were initiated by groups of women and only later joined by men.

However, the general conclusion that PTCCSs include poorer people in their membership, including some particularly disadvantaged groups such as single and widowed women,

should not disguise the great differences between societies. In Kurunegala some societies were observed to be refusing to expand their membership because they judged poorer people to be 'bad risks'. By contrast, in the same district there were societies that had only food-stamp holders (ie people officially judged to be below the poverty line) that were concentrating loans on female members, and evidence that the most affluent villagers (traders and farmers with 20 acres of land or more) did not join because it was beneath their dignity.

Despite the growing evidence that SANASA has been able to reorientate itself towards poorer people it must be observed that more often than not officeholders are selected from wealthier members. Tilakaratna et al (1992:12) found that '...the vast majority of the members [of 226 societies surveyed] are much poorer than their leaders'. In a similar vein, female office-bearing in primary cooperatives runs at only about one-third of the male rate. The observation that wealthier people tend to dominate positions of responsibility (and power) within primary societies leads to the question of whether financial services are differentially available to richer and poorer members?

4.2. Access to financial services

SANASA has grown so fast, at least in part, because it satisfies a real need for Sri Lanka's populace. Despite the extensive rural banking network created by the formal banking system, informal sources '...continue to dominate the rural credit markets' (Fernando 1988:249). PTCCSs combine the flexibility of access associated with informal credit sources, and the contractual security of formal banking. Among the borrowers surveyed in Kurunegala and Moneragala, only 20 per cent had received loans from banks or official sources. Some 70 per cent had never approached the formal sector for a loan, and just under 10 per cent had applied but been refused. Importantly, this lack of access to banks was more pronounced for poorer households: 85 per cent of those with monthly household incomes of less than Rs3,000 had never applied to banks, while only 64 per cent of those with incomes above this level had never applied. Credit cooperatives undoubtedly provide poorer rural people with greater access to credit from non-kin sources at affordable rates of interest and with limited transaction costs⁵.

5. While some PTCCSs operate with 'hours of business' (often in the late afternoons and evenings), nearly all societies visited maintained that office holders were available to members at all times. Thus, cooperative credit provision does not entail so much travelling and waiting time, or the associated monetary expenditures needed for

However, it would be erroneous to give the impression that all members have equal access to loans in terms of the scale of their borrowing. Although all members are required to graduate from small loans to bigger loans, it is evident that many poorer members reach a ceiling for loan size which they cannot get past. The survey indicated that wealthier respondents generally had better access to larger loans than poorer respondents. Some 35 per cent of households with monthly incomes of more than Rs5,000 had investment loans of more than Rs5,000 while only 9 per cent of 'poor' households (ie monthly income of less than Rs3,000) had such loans (Table 1). Two points should be noted with regard to this finding.

First, not providing large loans to poorer borrowers can be viewed as a policy that is in the interests of the poorer borrower. If, as von Pischke (1992) argues, we recognise that granting a large loan to a low-income household puts a higher 'debt burden' on it than on a wealthier household, then giving low-income households smaller loans reduces the likelihood of such households being exposed to risks that are beyond their capacity to absorb.

Second, the skewed nature of access to loans was a concern for some societies, and in 3 of the 15 societies surveyed the members had introduced an explicitly egalitarian policy of distributing the same amount of credit to all applicants. These were interesting examples of local initiative mediating some of the logical tendencies of the cooperative system, which has to some extent to rely on individualistic criteria of credit worthiness.

Table 1

SANASA - BORROWERS' LOAN SIZE BY HOUSEHOLD INCOME GROUP (n=144)

Household Income Group:	Rs1,000 -3,000	Rs3,001 -5,000	Rs5,001 -10,000	Above 10,000
<u>Loan Size:</u>				
Rs500-5,000	91%	80%	65%	65%
Rs5,001-10,000	6%	0%	22%	18%
Above Rs10,000	3%	20%	13%	17%
	100%	100%	100%	100%

Source: 1992 Survey

bank transactions; additionally, PTCCS members do not have to bear as many of the opportunity costs incurred when dealing with bank officials during working hours.

on the savings side⁶ of the financial market, SANASA activities greatly enhance the access of members to secure deposit facilities that pay interest. These services are of particular significance to poorer households in terms of creating the possibility of 'self-financing' microenterprise activities and reducing their vulnerability to sudden downturns in income. For some 65 per cent of surveyed members the only savings accounts they operated were with their PTCCS. For poorer households (monthly income less than Rs3,000) this figure rose to 80 per cent.

4.3. *The impact of credit on poorer members*

Precisely measuring changes in household income, and determining the degree to which an increase or decrease is attributable to a specific loan, is a notoriously difficult task (von Pischke and Adams, 1983). While we make no claim to have solved this problem, our survey revealed that taking investment loans from SANASA was commonly associated with increases in household income and that borrowers could often identify a clear causal link between access to SANASA credit and their income flow. These changes were not uniform, however, and while a small number of borrowers reported significant changes, most reported only modest increases or no change. However, there is evidence to suggest that income benefits have accrued to members across the different economic strata and more interestingly, that a significant proportion of poorer households have experienced some upward mobility. In particular, the proportions of respondents reporting very low household incomes (below Rs1500 per month) and low household incomes (below Rs3000 per month before and after loans) has reduced (Table 2).

In terms of the adjusted poverty lines discussed in the section on society membership above, 52% of survey households had incomes beneath the relevant line (Rs,2,100) before their last loan, while only 40% had such low incomes at the time of the interview (when the poverty line is adjusted for inflation to Rs. 2,239).

6. It should also be noted that savings within SANASA are redeployed within rural areas. SANASA's main competitor for small rural deposits, the cooperative rural banks based at MPCSS, channel finance from rural areas to Colombo to meet public sector borrowing needs to pay for increased military expenditure and the budget deficit. For every Rs2.50 deposited in rural areas they lend only Rs1.00 out in rural areas (Zander 1992).

Table 2

SANASA - PERCENTAGE OF HOUSEHOLDS IN DIFFERENT MONTHLY INCOME BRACKETS BEFORE LOAN AND AFTER LOAN (n=144)

Monthly Household Income	Percentage of Households Before Loan 12 to 18 months	After Loan
Under Rs1,500	38%	28%
Rs1,501-3,000	32%	27%
Rs3,001-5,000	15%	21%
Rs5,001-10,000	10%	16%
More than Rs10,000	4%	8%
Total	100%	100%

Source: 1992 Survey

The small sample size and difficulties of collecting such data mean that figures should be interpreted with caution, but poorer members clearly articulated two main explanations for increases in income and crossing the 'poverty line'. The first was that the granting of a SANASA loan permitted the establishment of a new income-generating activity or the addition of another facet to an existing enterprise. Some 30 per cent of borrowers had 'diversified' into adopting a new crop, particularly sugar cane, or a new activity such as paddy-milling, poultry-rearing, cottage industry or petty-trading. Such diversification was more important for female members, with 35 per cent of the women in the sample taking up 'new' activities compared to 23 per cent of men. Low-income members reported that loans permitted them to set up income-generating activities that were not possible 'without' a loan. Numerous case studies of individual members provided evidence of how such 'diversification' had benefited income.

The second explanation that low-income respondents articulated was a significant reduction in the use of informal sources of agricultural credit that small farmers regarded as very expensive or exploitative⁷. Cases of this were particularly common in Moneragala

7. This is not to say that all informal sources were regarded as 'exploitative', but clearly those villagers most dissatisfied with the particular sources that they had access to find SANASA's services especially attractive.

where farmers growing paddy and sugar cane often enter into 'tied transactions' with traders.

By this means they gain access to inputs 'in kind'. They agree to repay 'in kind' and to market surplus through the trader immediately at harvest time when prices are at their lowest. Such farmers reported significant increases in their income because SANASA loans permitted them to avoid tied transactions.

Apart from the income-generating loans discussed above all the societies surveyed provided 'instant loans' (usually of Rs500) for consumption. Such loans are regarded by societies as a distinct financial service and are universally popular with members despite their high costs (5 per cent per month). Although credit specialists often emphasise 'investment', poor households place a high priority on credit for consumption. This has been well-documented in Sri Lanka by Southwold-Llewellyn (1990), who demonstrated that in Kurunegala poorer families' most critical credit needs were to meet daily consumption needs and expenditure on festive occasions which strengthen social bonds. The acquisition of such credit often leads low-income households to borrow from traders, moneylenders and other big men, once 'kin' and friends have been tried: such informal sources can be 'costly', not only in terms of interest rates, but also in terms of associated social and political obligations. Alternative options, the distress sale of assets, are likely to produce small sums at a very high cost. By providing 'instant loans' PTCCSs meet a common need for low-income families and offer protection to the household's existing assets and future flows of income. In effect, such loans (which are an explicit right of membership) extend the 'entitlements' (Dreze and Sen 1989) of poorer people providing an increased degree of security and reducing the likelihood of households sliding into poverty as they respond to consumption deficits or emergencies. They are one of the major impacts of cooperative credit provision on the poor: the provision of a protectional 'social security' mechanism for members (Dreze and Sen 1991).

4.4. *The effects of thrift and credit cooperatives on existing socio-political relations*

A convincing evaluation of the effect of cooperatives on socio-political relations would require more in-depth fieldwork than our own study allowed. Additionally, the heterogeneity of these societies defies simple generalisation. As discussed above, cooperatives tend to reflect the socio-economic composition of a village. Yet the leadership often consists of

wealthier (and more educated) people than the rest of the members. However, a growing number of societies do not conform to this stereotype, being formed by poorer families; and in some cases the wealthiest families of a community are not represented at all. In cases where the poor predominate, the formation of a society provides a financial service which not only decreases members' insecurity, it also provides them with a greater degree of independence. One of the major changes which SANASA cooperatives have brought about is the reduced dependency which members have on credit tying them, in disadvantageous relationships, with economically more powerful traders.

Additionally, there is little doubt that SANASA cooperatives have been highly successful in providing women with access to financial resources, since women are now well over 50% of the membership. In contrast, only 17% of the New Comprehensive Rural Credit Scheme's borrowers are women (Central Bank, 1988: 133). SANASA'S success in reaching women is particularly important for female-headed households, but it is also true for women belonging to more conventional family units. In the latter case, what women most often lack is access to an independent source of income, which loans for petty enterprises can most often provide (Epstein, 1990). Women's income generating activities can enhance their status within the household, and potentially provide more bargaining power in their relations with male (and older) family members (Sen 1990).

The degree to which members of a society increase their bargaining power with wealthier people in their community depends on several factors. Not least are the degree to which, and type of relations determining how, a community is stratified by differential access to resources. Our tentative conclusion is a positive one, deriving principally from observing the way in which societies conduct their affairs in a participatory manner, and also from the simple fact that SANASA cooperatives are normally too small and too specialised to be perceived as a threat to local elites. Also, the combination of small scale and participatory procedures makes it difficult for elites to misuse societies, and capture them for their own ends. These features of scale encourage several characteristics which reduce the prevalence of elite capture, which is so common elsewhere.

Face-to-face contact is maintained between members, enabling individuals to participate to a greater extent than is possible in larger government cooperatives. Even the largest SANASA cooperatives are able to operate effectively with only a few staff, and maintain continual interaction between leaders and members. Such small membership enables

each PTCCS to be rooted in a single community, and rarely includes people farther away than neighbouring hamlets. This provides a knowledge advantage for both office holders (evaluating credit applications) and members, who are better able to judge the activities of their leaders.

Membership meetings in the larger state-influenced cooperatives are logistically difficult in terms of organising the presence of large numbers of people in the same place at the same time. SANASA societies are able to sustain monthly meetings due to the ease of communications in a community, and therefore the ability to coordinate effectively.

Meetings amongst members, in small societies, provide the basis for relatively egalitarian contributions to debates about a society's policies and specific problems such as cases of arrears, or disagreements about whether loan applications should be approved. In the case study societies, meetings followed a clear agenda, but the longest and often most important part of a meeting was an 'open forum' consisting of public loan applications, queries and discussions started by ordinary members.

The ability of ordinary members to contribute is also based on the 'openness' of accounts and books, with the office holders of most societies providing a financial summary of the last month's business at each meeting. (Many societies display financial summaries on the walls of their office). Because of the small numbers of borrowers, it is also difficult for office holders to conceal information relating to either individual cases or overall financial affairs. This 'transparency', which is possible partly because of the high literacy rates in Sri Lanka, reduces the likelihood of malpractice by those in positions of responsibility.

In conclusion, such participatory procedures make it unusual for societies to be manipulated by elites, or managed in a blatantly discriminatory fashion. Given their participatory nature, it is appropriate to see SANASA cooperatives at the very least as forums in which poorer people can voice their concerns and priorities, and often as a body through which social cohesiveness can be strengthened.

5. Understanding SANASA

The previous section has presented empirical evidence indicating that although the thrift and credit cooperative movement does not have an exclusive focus on poverty-alleviation,

it confers a number of benefits on several hundred thousand low-income households in Sri Lanka. Poorer households can join primary societies; through membership they gain improved access to loans and savings services for income-generation and consumption; the use of these services is associated with increased incomes and economic diversification for a significant proportion of poorer members and provides most members with an extension to entitlements that reduces vulnerability; more speculatively, it can be argued that SANASA contributes to socio-political change because of the opportunities that it offers female members, and more broadly by the open forum it creates to discuss individual and community issues at the village level. How can such a performance be understood in the light of empirical evidence that cooperative organisational forms usually do not benefit the poor, and the theoretical arguments discussed earlier?

In order to maintain the validity of their theoretical frameworks, public choice theorists most commonly explain such performances in terms of the 'exceptional' nature and 'charisma' of leaders who have successfully guided organisations. By such a device SANASA would be dismissed as an exception to their theorising because of the role of Kiriwadeniya in its 're-awakening' and expansion. Clearly, such an argument is unacceptable as it would mean that a theory could only be tested against cases that will validate it.⁸

Leadership cannot simply be side-stepped as an issue by assuming that virtually all organisations have neutral leaders who have no impact on organisational performance. Indeed, as discussed below, the role of leaders and the influence of their actions on people's behaviour within and outside their organisation must be a part of the explanatory framework.⁹

Examining Lele's 'growth-equity dilemma' in the context of SANASA's experience, it would be found that primary societies, district unions and the Federation are not purely

8. Such an argument is particularly galling as private sector zealots see such leadership and entrepreneurialism as central to the explanation of why the private sector works, but deny its influence for institutions of the state or civil society.

9. It should be noted that elites are not homogeneous, as is often assumed, but are comprised of different groups, with different interests. In the case of SANASA there is evidence that the members of the 'elite' who get involved in village societies tend to be from the 'professional' and 'semi-professional' classes, while large landowners are less likely to take an active interest in PTCCs.

profit and growth maximising agencies. They are partly guided by private interest concerns, as is evidenced by their highly effective attempts to avoid defaults and to use pricing mechanisms to charge those who use high cost services (eg 'instant loans') higher rates of interest than those borrowing larger amounts for longer periods. But they are also guided by other values, relating to collective interests, which lead to a distribution of loans across the membership and to a major part of operational costs being met by voluntary contributions.

The second problem facing cooperatives, the 'decentralisation-equity dilemma', argued that when cooperatives are locally managed they will be controlled by the 'rural political elite' who will capture the bulk of the benefits. Clearly such a conclusion is invalid for SANASA. Although the evidence demonstrates that wealthier members have preferential access to larger loans it also indicates that the vast majority of members have access to loans and that PTCCS funds have not been 'captured' by a narrow elite. As described earlier, the decision-making processes of most societies are very open and the interests of a wide membership are brought to bear on issues. Indeed, it could be argued that the donation of services (such as book-keeping, maintaining registers, transporting savings and loans to DUs (or divisional offices), dealing with correspondence) and facilities (rooms for meeting places and temporary offices) which is borne by 'elite' groups - teachers, ayurvedic doctors, civil servants (Tilakaratna 1992) - represents a transfer of resources from some of the better-off within a village to poorer members. Why has SANASA not been 'captured' as Lele postulates it should be? To answer this question we must consider several factors.

First - and in contrast to the concepts of private interest constructs - all organisations have a social and cultural context. In rural Sri Lanka, symmetrical reciprocal transactions and collective action have strong historical precedents. Buddhist communities practice attam (labour exchange amongst farmers), dhanasala (community gifting of food for festive occasions), Shramadana (voluntary labour for community benefits) and most villages have 'death aid societies'. In addition seetu, revolving savings and credit associations, are common. All involve collective action but with a strong emphasis on the contractual nature of such activities. Thus there are grounds for believing that the Sri Lanka context is supportive of such initiatives.

Clearly, however, context can only provide a partial explanation as the multi-purpose

cooperative societies (MPCS) of Sri Lanka have been largely captured by the rural elite and individuals with good political connections. This situation may have worked to the advantage of SANASA as it has diverted the attentions of the more rapacious elements of rural society away from credit cooperatives. By maintaining its distance from the state, SANASA has avoided the debilitating effects of party political manipulation and has retained an open and participatory *modus operandi* that makes it unattractive to vested interests. By focussing on the allocation of non-state resources at interest rates close to market levels it has produced a portfolio of benefits that offer limited opportunity for selfish action. Noticeably, on the one occasion that the movement became clearly involved with a state-sponsored scheme involving subsidies (the Million Houses Programme), homogeneous groups of middle-income villagers began to form cooperatives that sought to exclude poor members and, ultimately, default rates were more than ten times the level of 'ordinary' business. Much of the success of SANASA lies in the ability of its leadership, interacting with the membership, to walk the political tightrope of keeping a sufficient distance from the state to avoid the myth of 'public interest' but never threatening the state in ways likely to attract retaliation. Avoiding the tentacles of the Janasaviya Programme remains a major activity at the present time.

The leadership of the movement over the last 15 years is also of significance. Kiriwandeniya has provided a vision and energy that has fired thousands of Sri Lankans into local-level action. His interpretation of SANASA's mission as one of meeting local level financial needs by collective action which places a high value on ensuring that poorer villagers derive benefits has diffused throughout the membership, helping the movement to expand and to extend itself deeper in socio-economic terms. This leadership has what Chambers (1992) has termed 'self-spreading' properties, and has its origins in experiences with other voluntary organisations (such as Sarvodaya). It cannot simply be replicated, but the fact that it exists enhances the likelihood of other dynamic, voluntary sector leaders emerging.

Uphoff (1992) has extended these ideas and argued that individuals are not the simplistic private interest automatons that people public choice theory and Lele's 'cooperatives'. Instead, they are people who experience differing mixes of predispositions to selfish and generous behaviour, and these can be influenced by the behaviour of others. In the Sri Lankan social context, under the influence of a leader who could articulate a powerful vision of rural life improved by a form of collective action, with existing models of well-functioning credit cooperatives, with programmes that offered little to the more rapacious

elements of local society but were attractive to the educated rural elite then the propensities of individuals to commit themselves to 'generous', group-based action were strengthened. As Uphoff (1992:327) argues '...expectations constitute one of the major influences on behaviour, creating self-fulfilling prophecies'. Thus as generous and cooperative behaviours were produced by SANASA members they created a context in which such behaviour by others became more likely. The credit cooperatives were re-awakened in ways that provided a range of households, including poorer households, with valuable services that made household advancement and local development more feasible. Private interest considerations were not forsaken by SANASA members, but they were traded off with other value positions of which 'other-regarding cooperation' became significant. Such a reality is beyond the grasp of public choice theory with its one-dimensional model of human behaviour.

6. Conclusion

Drawing conclusions from a single case study has its risks, but a number of the practical and theoretical implications of this paper can be aired for future validation or refutation.

On the 'practical' side, it is evident that cooperatives merit renewed consideration in development debates as a rural organisational form that has potential for poverty-alleviation in some contexts. Autonomous cooperative movements are unlikely to adopt an exclusive focus on poverty-alleviation - as many of the large non-governmental organisations in Asia claim. However, cooperatives are not intrinsically anti-poor, as Lele argues, and can provide useful services to poorer people. This is not to say that cooperatives represent some elusive 'best option', but that they have a role in the pluralist institutional development approach that is an essential component of strategies to improve rural livelihoods. Such cooperatives need to keep their distance from the state by a skillful management of political relations, must avoid activities (and particularly subsidy disbursements) that make them attractive to elite groups for manipulation, and must be prepared to use market mechanisms to ration services and recover costs. Donors interested in such creatures need to recognise that their assistance is needed for the strengthening of organisational systems and personnel rather than the provision of resources to directly increase the volumes of goods and services provided.

On the theoretical side, this study indicates that 'private interest' constructs can provide

only a partial explanation of individual and group behaviour. The claims that such theories can explain the failure of collective action (such as cooperatives) to assist the poor are inaccurate because of their failure to identify the underlying cause of earlier problems - the myth of the public interest state. Uphoff's concepts about the ambiguity and tension of individual choices relating to selfish and generous behaviour and the preference for individual or group action have more power as they can accommodate private interest behaviour and other forms of behaviour. The 'social energy' that he and Hirschman (1984) describe can be vividly seen in the re-awakening of SANASA in the late 1970s and its growth in the 1980s.

But does such social energy extend beyond households and villages so that it not only has immediate impacts but also influences events at the macro-level? Can it contribute to the strengthening of civil society and promote the renewal of a democracy that is accountable and accepts political competition? Can it influence the policy choices that face the Government of Sri Lanka, with aid donors emphasising more extensive liberalisation and policies that ignore the possibility of public interest and public action? Only tentative comments can be made on such grand matters, and these are not optimistic. Despite its scale and vigour SANASA remains in the shadow of the Sri Lankan state. It has developed some capacity to avoid manipulation and co-option by the state, but it has not yet developed a capacity to influence the state in terms of specific policy issues or more diffuse state-society relationships.

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Abstract

This article provides a counter-argument to the proposition that cooperatives are not suitable organisational form for providing benefits to poor people. Lele's analysis of cooperative 'failure' is discussed in relation to its public choice theory framework - one which is flawed when trying to understand local forms of public action.

The SANASA Thrift and Credit Cooperative Societies in Sri Lanka provide empirical evidence to support the counter-argument. Since the revitalisation of this 'movement' in the late 1970s, SANASA's geographical spread and membership has increased dramatically. Presently, the cooperative network is one of the largest sources of rural financial services in the country. More importantly, there has been a 'downwards' expansion, as poorer people have joined existing village societies, or established new ones themselves. SANASA has become progressively more focused on the poor, including women and other particularly disadvantaged groups.

Based on fieldwork and a survey of members, data is presented to show how the Thrift and Credit Cooperatives have brought real benefits to poorer members. Significant numbers of borrowers have achieved increased incomes linked to their use of credit, and there is evidence of some graduation above the poverty line. Additionally, savings and consumption-loan facilities provide a safety net for poor people, since they reduce household vulnerability when faced with seasonal distress or other emergencies.

SANASA cooperatives are notable because they have not, generally, been 'captured' by local elites wishing to use them for their own interests. Most village societies remain

relatively democratic, using procedures which sustain operational 'transparency' and allow a high level of members participation in decision making;

SANASA illustrates how purely self-interested behaviour is not axiomatic, and that there are conditions in which local forms of collective action emerge and can be sustained. Sri Lankan social and cultural norms provide precedents from which the cooperatives have drawn strength, but SANASA has been particularly successful in providing the context in which such 'other-regarding' behaviour becomes more likely, partly because of national and grass-roots level leadership. The study shows the weakness in public choice theory because of its failure to incorporate the role of leaders as a factor in its analytical framework.

In conclusion, the argument suggests that cooperatives merit renewed consideration as an organisational form which can, in some contexts, play a poverty-alleviation role. To be effective, cooperatives need to keep their distance from the state by managing political relations, must avoid activities which make them attractive to elite groups (such as subsidies), and should use market mechanisms to ration services and cover costs.



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Summary

The crucial aspect to focus upon in evaluating Africa's experience in financial sector development is its savings effort, the level and quality of financial intermediation and the efficiency in resource use. On all these scores, the African financial sector has performed very badly. Upon acceding to political independence, African governments decided to remodel their financial infrastructure by the establishment of a diversified set of financial institutions - viz - commercial banks, development banks, savings banks, co-operative banks, housing finance and postal savings banks, etc. Unfortunately, the ensuing benefits have not been commensurate with the enormous costs incurred. A great deal of effort was geared towards the provision of credit rather than the mobilization of resources. The official attitude to resource mobilization has been extremely lax partly due to foreign resource inflows and partly due to the inexpensive rediscounting terms and facilities provided by the central bank.

Commercial bank branches have not yet been sufficiently diffused in the rural hinterland with the result that Africa's resource potential in the rural areas still remains untapped. Development and Co-operative banks have literally become mere retailers of foreign loans and government funds even though many were empowered to mobilize resources in their statutes of establishment. The operations of specialised financial institutions are generally insulated from competition by various legislations, and are even provided with generous subsidies. Instead of undertaking much wider and more demanding tasks, (eg. bringing in financial innovation, developing money and capital markets, broadening the monetized sector of the economy, improving the unorganized segment), central banks

in developing Africa are confined to the narrow contours of a regulator, and are circumventing financial deepening through the provision of generous accommodation to the commercial banks and the government.

Bank credit still remains a financial appendage of certain enclaves: large-scale mineral exporters, highly protected manufacturing, foreign owned undertakings, and the parastatal sector. In contrast, small farmers and indigenous small-scale enterprises remain financially repressed although they possess quite a large share of the deposit resources on which bank credit is based. These repressive influences of the formal banking system are perpetuating the enlargement of the informal sector.

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